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C O N F I D E N T I A L SECTION 01 OF 02 SANTIAGO 001547

SIPDIS

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SUBJECT: NATIONAL RENEWAL PRESIDENTIAL CANDIDATE PINERA
OUTLINES BROAD THEMES OF ECONOMIC PLAN

REF: SANTIAGO 1090

Classified By: A/DCM Andrew Chritton. Reasons: 1.4 (b and d).

1. (U) Summary: National Renewal presidential candidate Sebastian Pinera claimed, before a largely receptive crowd in late June, that the administration that succeeds President Lagos must address deficiencies in economic growth, education, and health care in order for Chile to become a developed country. While acknowledging the Lagos Administration's achievements in macroeconomic stability, Pinera said the administration's failures in other areas had prevented Chile from taking full advantage of largely positive global economic conditions. End summary.

2. (U) Center-right National Renewal presidential candidate Sebastian Pinera delivered the opening address at a seminar co-sponsored by AMCHAM and one of Chile's leading conservative dailies, "El Mercurio," on June 22. The seminar, entitled "Economic Projects for the Future: Three Challenges," also featured presentations by economic advisors to Pinera and the other two principal presidential candidates (septel). Approximately 200 Chilean and foreign business representatives attended the event, which received considerable press coverage.

3. (U) Summary of the key points made by Pinera during his 20-minute presentation:

(A) Thrust: The Lagos Administration without question has achieved a number of economic accomplishments, particularly concerning macroeconomic stability. However, there are several areas requiring immediate attention if Chile wants to grow and be competitive in the global economy.

(B) Negatives: Pinera identified the following areas where the Lagos Administration had been deficient:

--Growth Rate: Chile's growth rate over the past 2-3 years has not been enough to propel Chile to the next level. The Lagos administration should have taken better advantage of the favorable economic conditions to grow the economy more. There are two main reasons why the Chilean economy has grown more slowly than it did during the last decade: declining investment (by both Chileans and foreigners), and declining productivity.

--slow rate of job creation
--increase in unemployment
--declining rate of wage increases
--increase in inequality of wealth
--declining educational standards and quality
--declining availability and quality of health care

On these last two (education and health care), Pinera asserted that, despite large increases in spending, Chile ranked low in both areas, given its overall level of development. Pinera characterized the Chilean education system as "broken." He said it was incomprehensible that this system produced such large numbers of students who were not competitive in the global economy.

(C) Solutions: Pinera (who at this point was running out of speaking time) rattled off the following steps for Chile to take to "complete the transition from the underdeveloped to the developed world:"

--increase growth rate ("four percent will not suffice")
--increase capital investment -- both from within Chile and from abroad
--increase quality of education
--increase flexibility in the economic sectors and the labor markets
--reduce poverty
--increase training of the workforce.

(D) Conclusion: Pinera said Chile's future would depend on the efforts of Chileans, not on outsiders or some grand "imperial power." "It is in our (Chilean) hands."

4. (C) Comment: Pinera's remarks were filled with statistics and sophisticated economic terminology. The forum and audience were tailor-made for him, and allowed him to show off his extensive formal academic training (Post Note: Pinera earned a doctorate in economics from Harvard and has considerable business experience. End Note.) His criticism

of the state of the Chilean education system, and his call for greater flexibility in the economic sectors and labor markets track with comments we have heard from other leading Chilean economists. Pinera displayed the same degree of high energy that he has shown on the campaign trail since entering the presidential race in mid-May (reftel). In the latest Center for Public Studies poll released July 14 Pinera polled 14 percent, behind Alianza rival and Democratic Independent Union (UDI) presidential candidate Joaquin Lavín at 21 percent, and Socialist Party candidate Michelle Bachelet at 47 percent.

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